RICHARD RUSSELL'S **DOW THEORY LETTERS, INC.**

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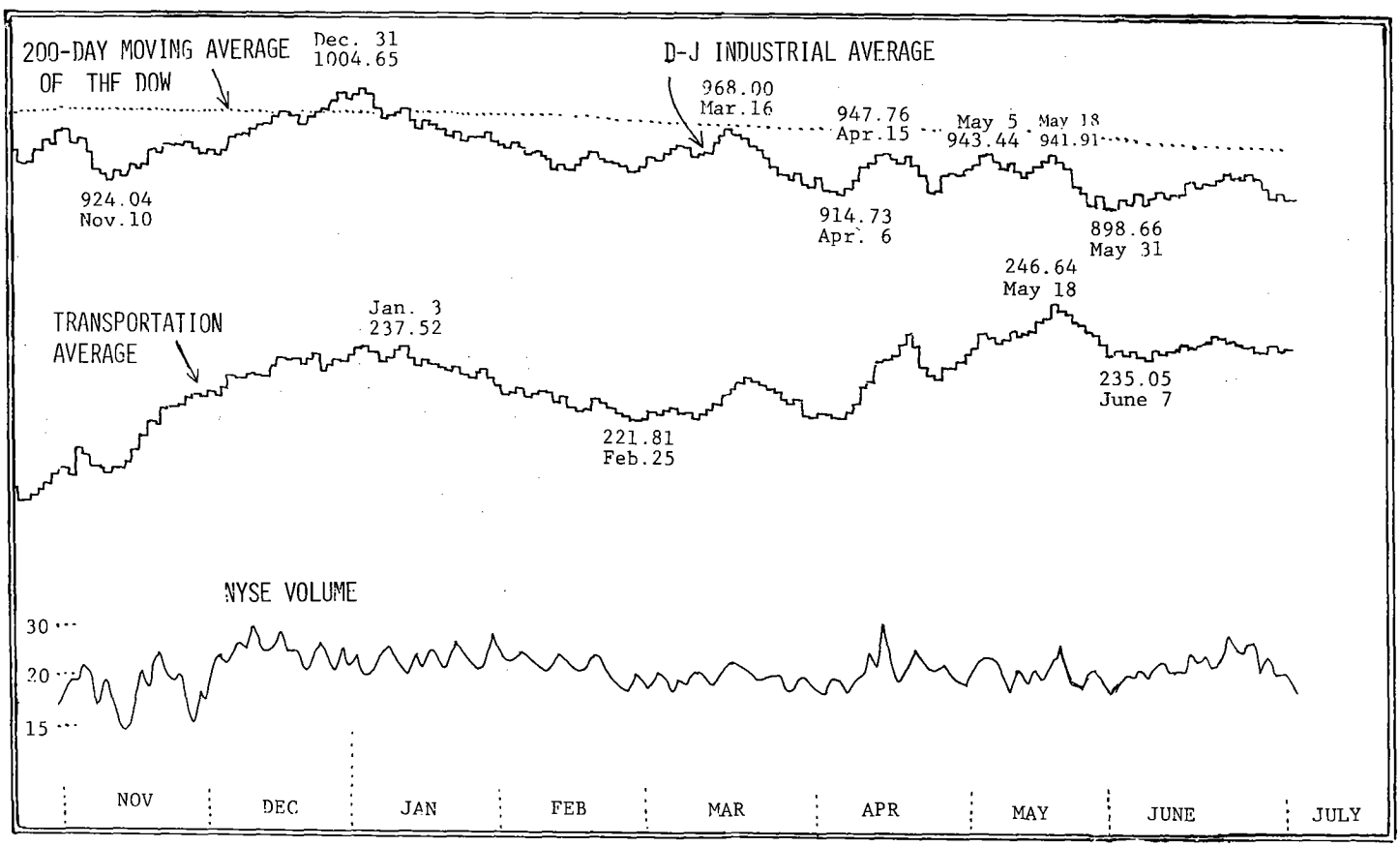
THE MARKET: Investors and traders tend to get too caught up with the daily and even the weekly action of the market. We get bored, we get fidgety, we want that action. And we forget what we're looking at and what we're supposed to be doing. What we're supposed to be doing, of course, is making money (or trying to hang on to our money). And that can be tedious, boring exasperating.

We also tend to forget that the big money is made by riding out the big tidal movements, not the daily pops and blips. The stock market is a vast ocean, not a puddle. And the ocean is subject to the tides. Lest we forget it, the forces that can blow away a puddle will hardly make a ripple in the ocean. One can stare all day at a puddle or a lake and gain no insight as to the direction of the tide.

Ideally, the man who wants to make money in the market would make his major purchases as early as possible in the new bull market, then simply add to those purchases during each ensuing correction. I've seen that policy followed with great success in the past (the great Dow Theorist, E. George Schaefer advocated that policy from 1949 to 1966, and he had an enviable record.) On the other hand, Robert Rhea, the Dow Theory genius of the 1930's, preferred selling out prior to potential secondary reactions in a bull market (and Rhea was extremely successful with his method as well).

Personally, I have always opted for Rhea's method, not because it necessarily produces better results, but because it's easier on my nerves. After the bull market corrections of 1953, 1957, 1960 and 1962, I've concluded that one may live longer if he can avoid the occasional vicious corrections that hit a primary bull market. Obviously, one will also sidestep a few corrections that never materialize, but I don't complain about paying the price of "insurance." After all, I've been paying the premiums on my life insurance for years, and I don't bemoan the fact that I'm still alive.

Ever since the current bull market began, I've been fascinated with the comparisons between it and the bull market of 1932-37. I believe that the comparisons are valid because both bull markets (the one that began in 1932 and the one that began in 1974) occurred following historic and extended stock market crashes). Following the 1929 crash, the market (i.e., the Dow) finally hit its low of 41.22 in July, 1932. A tremendous ensuing rise carried the Dow to 108.67 in July, 1933. The market subsequently turned ragged, correcting into late-1933. It then rose to a Dow peak of 110.74 in February, 1934. During the



next 13 months the Dow moved virtually sideways, although the Rails dropped precipitously (Rails lost half their value during the 1934 to 1935 period).

Starting in March, 1935, about three years after the 1932-37 bull market's inception, the Averages really "took off." In the next two years the D-J Industrial Average almost doubled. The final bull market peak of Dow 194.40 was recorded in March, 1937. And that ended the post-crash bull market of 1932-37.

What of today's post-crash bull market, the bull market that has followed the crash of 1973-74? I wrote back in 1975 that following a terrible market collapse such as the one we had just witnessed, the bull does not simply jump to his feet and push relentlessly ever-upward. The market was mangled during the 1973-74 crash, stocks were torn apart, battered to their knees, mutilated. So the initial recovery of 1975-76 was much like the initial recovery of an animal that has been badly hurt. It jumps to its feet, looking remarkably fresh and strong. It looks about wild-eyed with excitement. Then the shock of the accident sets in, and the animal grows dull and shaky; in reality, it needs a rest. Such was the market recovery of 1975-76, and I liken that recovery to the recovery of 1933-34.

In my opinion, today's market has been resting, pulling itself together, recovering, ever since early 1976. The resting period should be drawing to a close fairly soon. And for this reason I see the big test drawing ever closer. For if the primary bull market is still intact (and I believe it still is), then somewhere between now and the final quarter of 1977 (or perhaps even in early-1978) we should witness a major rise.

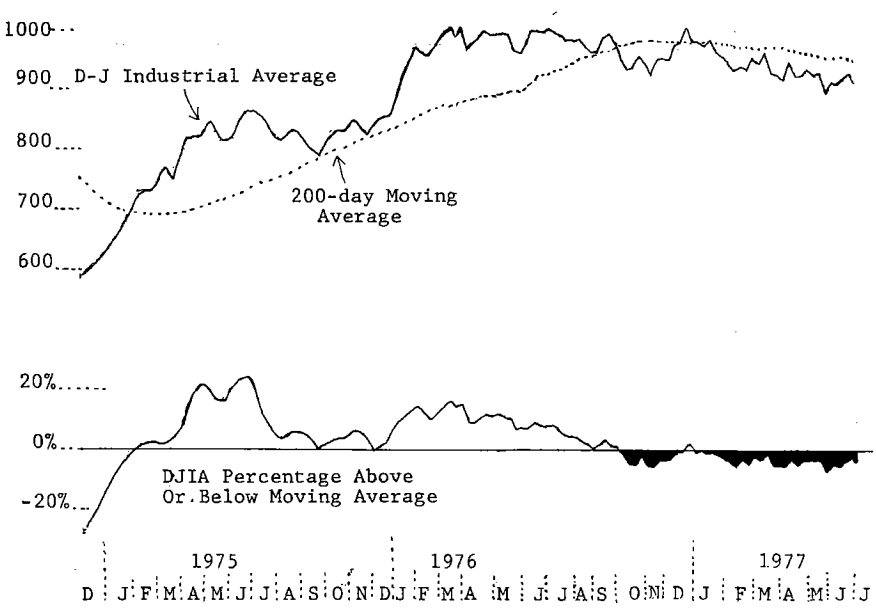
I'm not saying that the rise will be comparable to the fabulous 102% rise of 1935-37. But it should be a substantial rise (probably the rise will represent the third, speculative phase of the bull market). And what, you ask, what if the rise simply does not materialize? Then I would say that the market is telling us something very important. It will be telling us that there are major, almost insurmountable problems waiting for us just ahead, problems which could be economic, social, political, or all three. If that occurs, if we come to that sad state of affairs, we will know that the similarities between the post-crash 1932-37 bull market and the post-crash bull market of 1974 to date have ended.

I have included (below) my chart of one of the simplest and most fundamental (and helpful) of all stock market relationships. It is the relationship between the D-J Industrial Average and its own 200-day moving average (MA). I usually consider a bull market to be in a primary advancing phase when the Dow is above its rising 200-day MA. This was the situation which existed from January, 1975 to October, 1976 (note that even the late-1975 correction did not take the Dow below its 200-day MA).

The Dow plunged below its MA in October, 1976, and it has remained below it ever since (but for one short upward blip in December, 1976). In other words, the Dow has held below its 200-day MA for nine months or ever since December, 1976. This is even more easily viewed on the lower part of the chart, which shows the Dow and its percentage of rise or decline below the 200-day MA.

Now nine months is an **extraordinarily long time** for the Dow to hold below its MA **within a primary bull market**. Note, however, that since October, 1976, the Dow has never dropped as much as 5% below its MA. Thus the Dow has never become really "oversold." This may be one of the major problems for the market and the investor at this point. But often an extended (in time) correction will make up for a severe (in extent) correction. Therefore, we can hope that the Dow is moving towards the end of its long convalescence.

I am assuming, of course, that we are still in a primary bull market. Many of my subscribers are on the sidelines now. Others have conversative positions of only 30% or 40% in equities and the rest in bonds. But here is the basic situation as I see it. The Dow has been the big laggard in this market (although the Transports, as noted in the last Letter, are now beginning to turn weak). Many analysts have been saying that a lagging Dow is unimportant, that "the rest of the market has been acting fine, so who needs the Dow." This widely-expressed opinion (I should call it a cliche) is, to my mind, a dangerous one. There's never been a period in market history when the Dow and the rest of the market have not ultimately ended their divergence and moved as if they were geared together.



For this reason, I see the situation as follows: if the Dow continues to act weak, if the Dow continues to hold below its 200-day MA and below its preceding peaks in the 941-943 area, then I would opt for safety and hold a major portion of my assets in bonds. On the other hand, if the D-J Industrial Average decides to come to life, I would wait for it to break above 941-943 before purchasing more common stocks. And if the Dow can then push **decisively** above its 200-day MA, that will tell me that large investment interests are willing (for the first time in nine months) to pay more for the Dow than they have at any time over an average of the last 200 days.

I want to make it even simpler if I can: the general structure of this market has held together well over the past nine months of corrective action. But the laggard Dow represents a continuing "yellow caution

light" for those who take technical analysis and the study of the averages seriously. Since the market weakness has been pretty much signalled by, and centered in the Dow, it remains for the Dow to signal forthcoming strength. Thus, from the standpoint of the moving average study, I would want the Dow to better its own 200-day MA, which currently stands at 949. A decisive move **above 949**, with the **Dow holding stubbornly above that point**, would be a most bullish development in my opinion. It would warrant purchases of stocks or stock funds on the premise that the correction is over and the bull market is ready to move higher–perhaps importantly higher.

Question: Russell, you have been cautious ever since early 1977. Does this mean you are ready to turn wildly bullish on this market?

Answer: I continue to believe that this is a primary bull market. But for almost a year it has been a bull market with problems. My subscribers have sidestepped most of that area and most of the problems. But nine months is a long time for a bull market correction to hold in force. Personally, I wouldn't gamble, speculate, wax poetic over this market unless the D-J Industrial Average gets in the act. I may be wrong, I may be too conservative, but I don't like to mess with poor odds, and the odds on making money with the Dow in a downtrend have never been good.

BUT, if the situation changes, if the character of the market changes, if the bull decides to take total charge again, then the odds will quickly switch to the "Go" side. My signal will be a forceful move of the Dow above its 200-day MA at 949. If it happens, great–we'll act on it!

DOW'S BAROMETERS: The study of the Averages constitutes one of the foundations of these reports, and I seldom publish a Letter without at least a brief discussion of the D-J Industrials and Transports. Note on the page 1 chart that the latest rally has been singularly unimpressive, from the standpoint of the Averages.

Starting from a May 31 low of 898.66, the Dow rallied roughly 30 points, then turned down. As of this writing, the Dow has given up better than half the paltry 30 points gained on the June rally.

The Transports have fared even worse. Having gained roughly 4 points (or 1.7%) on the June rally, Transports are now back within a few points of their June 7 low of 235.05. This is the first time since last October that the carriers have acted weaker than the Industrials.

We now have a technical situation which contains the seeds of trouble. Industrials have been a weak Average for nine months, having traced out a long series of declining peaks and bottoms. Only the outstanding strength in the Transportation Average has served to keep the price structure intact. On every decline of the past nine months, Transports have refused to confirm the weakness of Industrials.

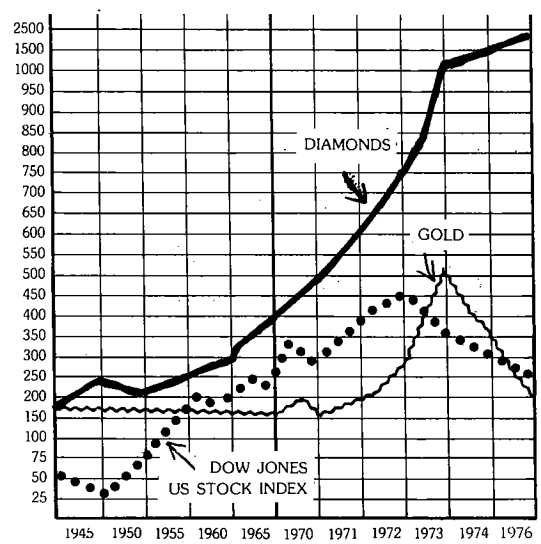
If Transports have now turned weak, we will have a situation in which first one, then the other Average is weak. IF both Averages are now weak, we could have an interesting test in the period ahead. That test would entail the May-June lows. In my opinion, the strength or weakness of this market will be measured by the ability of **one or both** Averages to hold above the 898.66 (Industrials) and 235.05 (Transports) lows. If, on any weakness, one or both Averages manage to hold **above those lows**, then we will simply see further base building. But if any decline takes the Averages **jointly** below 898.66 and 235.05, then we would have the potential for a further, and very probably dramatic, decline.

PRICES: As most readers of these Letters know, I am interested in all areas of investment, and I have been writing increasingly about investment vehicles other than stocks. I have been talking about the other areas because I believe that diversification in this complex and unpredictable age is more important than ever before.

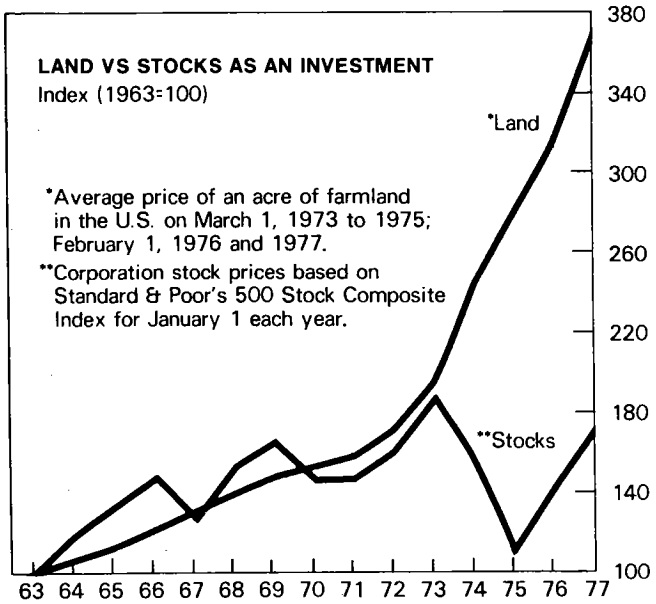
One of the problems that the investor must deal with is new laws. In this age of rapid-fire change, of political upsets and explosions, an investment that seems perfect one year may be almost a liability the next. For instance, in the short space of half a decade we have seen ownership of gold legalized, we have seen S.Africa become a terrific problem area, we have seen indications of a possible change in stock dividend status, we have seen sweeping change in US tax laws, we have seen a partial breakdown in Swiss bank secrecy laws, and many other changes too numerous to list.

In recent Letters I discussed postage stamps, which happen to be my own favorite investment medium outside of securities. I receive requests every week regarding alternate forms of investments such as precious stones, diamonds, houses, land, etc. So at this point I want to write a bit about alternate investments and their plusses and minuses.

The accompanying chart shows the index price of diamonds (it's a DeBeers chart) compared with the indexed price of gold and stocks. Obviously, diamonds have been the winner. But I want to warn you that it's not all that easy. A diamond buyer has to deal with color, quality, cut, size, and price. If you are not buying at or near the wholesale price, you are probably paying far too much for a diamond (and this goes for all precious stones). So the amateur has a tremendous problem when buying a stone, and it is that he simply doesn't know what he's doing whereas the seller does. Furthermore, there's no SEC to protect the buyer of precious stones.

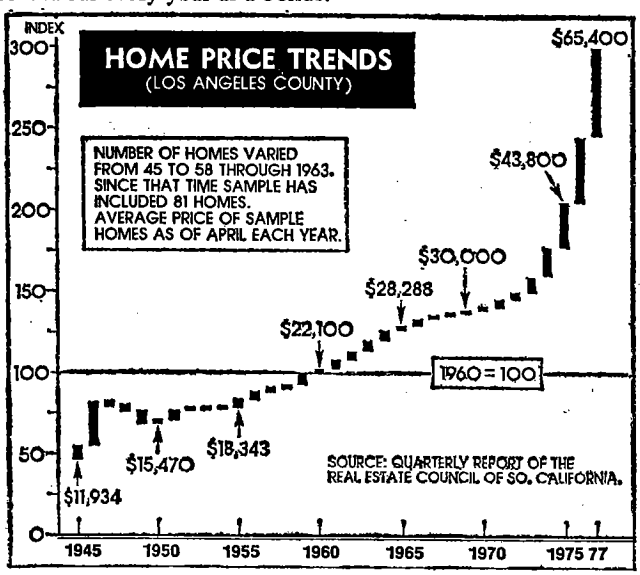


After much study, I have concluded that the area of precious stones is not a particularly good one for the average buyer. The chance of buying a good stone at a good price is slim (but not impossible). My conclusion is simply that the opportunity in diamonds is not as fabulous as the chart suggests.


LAND VS STOCKS AS AN INVESTMENT
Index (1963=100)
*Land
**Stocks
*Average price of an acre of farmland in the U.S. on March 1, 1973 to 1975; February 1, 1976 and 1977.
**Corporation stock prices based on Standard & Poor's 500 Stock Composite Index for January 1 each year.
380
340
300
260
220
180
140
100
63 64 65 66 67 68 69 70 71 72 73 74 75 76 77

Next we have a chart of farmland prices compared with stocks (everybody loves to compare their particular favorite investments with stocks, because stocks have done nothing over the past 10 years). Since 1973 the price of farmland has skyrocketed, actually doubling in many areas. Last year farmland increased 17%, the second biggest jump in 50 years (1973's 24% rise was the biggest). But my own feeling is that farmland is being overdone. Furthermore, where you are makes a big difference. For instance, last year California farmland actually declined in price whereas prices in Illinois and Iowa exploded. I feel that basically the farmer himself is the man who will do best with farmland. Amateur buyers will be over their heads and end up paying taxes on an item which may actually cost them money.

Probably the most incredible non-securities chart to be seen anywhere is this chart of the average price of an already-built home in Los Angeles County. Home prices everywhere have headed up ever since World War II. And for the average family, the best investment they have ever made has been their house. The reason is that the worth of their house has climbed steadily higher, and all the while they have had the actual use of the house. It's as if you purchased 500 shares of General Motors in 1945, saw the stock rise in price and were supplied with a free GM car every year as a bonus.



Since 1973 the price of an LA house has skyrocketed, as you can see on the chart. If this chart represented a stock I would say that the stock was in a frenzied blow-off phase and probably should be sold. In fact, I find myself wondering, as the forces of inflation ease and as consumers find themselves "borrowed up," if the prices of houses are going to hold all of their phenomenal gains of the past four years.

I have received many letters from people who want to know whether I think they should sell their homes. My answer is that a home is not like any other investment. A home possesses an emotional content, it represents an extremely important statement about your way of life, and to treat it as just another investment is a mistake. So my answer is, "If you like where you live, if you can afford it, if you are happy living in it, hang on to it." More than any other item, your house is symbolic of you, your tastes, your desires, your dreams. If you have a real feeling about your home, **keep it.** It will be a good investment for your psychological health. And that's more important than anything else.

STOCKS_BONDS: The relationship between stock and bond values is a most interesting and subtle one, and it should be fully understood by all individuals, corporations and fund managers. I want to go into it a bit further now.

The yield spread between stocks (S&P 500) and the highest grade bonds (Moody's Aaa-rated) is now 3.4% in favor of bonds. That may not sound like much, but let's take it over a 10-year period. Over 10 years that 3.4% compounded in favor of bonds means that if one's stocks stood still and just held their dividends and one's bonds just paid their interest, you would have a 39% advantage in your bond portfolio over stocks.

"Ah, " say the stock buyers, "but stocks raise their dividends and stocks advance in price, thus they will make up or surpass the 39% compounding advantage of the initially higher yield in bonds."

"Maybe so," says the bond buyer, "but you are assuming that in the coming 10-year period business will be good, stocks will be rising, and dividends will be increased. As a bond buyer, I don't give a damn if business is flat or down, I'll just collect my bond interest and reinvest it. And I'll tell you something else; if interest rates go up, my bonds will drop in price, but I'll love it, because I'll be reinvesting my bond interest at higher rates, and in the end I'll do even better."

I believe there are four major reasons why bonds are gaining in investor interest at this time. (1) The record of stock investments over the past decade has been a dismal one. (2) The "prudent man" rule makes fund managers personally liable for stupid and costly investment decisions. (3) The recognition that a 3.4% yield spread in favor of bonds is a huge advantage. (4) The gigantic growth of pension funds and the increasing awareness of the great asset-building power of **compound interest.**

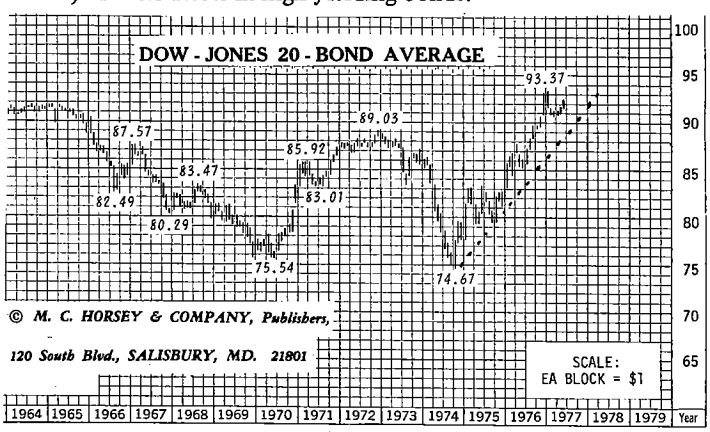
In a recent study dealing with roughly half of all the private pension fund money in the nation, it was shown that in the period of 1961 through December, 1972, (not including the ensuing bear market) the *common stock segment* of the pension funds produced a median return of 7.1%. This is not comparable to today's interest on the highest grade bonds!

During the period of November, 1969 through December, 1976, a period of virulent inflation, S&P's 500 stock index produced

a total return (including appreciation and dividends) of 42.7%. During the same period, Salomon Bros. Bond Index produced a total return (including reinvestment of interest) of 76%. It is these types of comparisons and studies that are bringing a huge, new investment interest to the bond market.

Perhaps the most amazing fact is as follows. If you put $10,000 into an 8% bond over a 30 year period, interest collected over that period will be $24,000. BUT, if you **reinvest** all the interest at 8% (assuming interest stays at 8%), then over the 30 year period you will collect $71,000. And over two-thirds of your return will have come from interest on your interest.

This single fact is making the rounds of the pension fund managers. It is telling them that (1) bonds are great values at current yields, (2) bonds eliminate many investment timing decisions, (3) bonds can keep up with inflation if the interest rate is compounded, (4) when one says that "stocks are cheap," one must also ask, "cheap in relation to what?" If the bond–stock *yield* relationship is heavily in favor of bonds, then the concept of cheap stocks must be adjusted downward. This is exactly the situation we have today. It is also the reason I have been urging subscribers to put at least 50% (and lately even more) of their assets in high-yielding bonds.



In order to orient readers as to what bonds have been doing, I am including this chart of the monthly range of the D-J 20 Bond Average. As you can see, the Average is up 24% since the bull market in bonds began in late-1974. Add to this 24% a return of 8-9% annually, and you can see the bond buyers of the past three years have done rather well (I'd call a total return–appreciation plus interest–of about 50% pretty good in this business).

I get many requests from subscribers regarding "what bonds to buy." Again, I will say that I think the closed-end funds are a good item for those who can use taxable income. *Mass Mutual Income Investors* is a closed end fund with assets around $135 million. It yields 8.34% and is currently selling on the NYSE at a discount of 16% below its actual net assets. MIV has 75% of its entire bond portfolio in A-quality or better bonds.

Bunker Hill Income Securities is a small fund with $55 million in assets. The fund sells on the NYSE at a discount of 4.6% below actual assets. BHL yields 8.4%. The fund has 75% of its assets in bonds of A-rated quality or better. Both of these closed-end funds are, of course, traded just like common stocks on the NYSE. They are suitable for individual accounts and they are excellent for pension plans. (DTL has a small investment in each).

DON T BE FOOLED by Jimmy Carter's generous contribution to the Government. Carter had no tax liability in 1976, so he offered to pay $6,000 to the Government because he felt every American (regardless of tax preference) should pay some tax. What Carter did was make a political statement. The statement had to do with the coming Carter tax revisions.

The Carter tax bill, in my opinion, is going to sock it to the rich, in a variety of ways. In return, the top tax bracket is to be dropped from 70% to 50%. But when the smoke has cleared, it's going to be seen that the new Carter tax bill is going to be bad for investors, bad for business, bad for the nation.

For instance, who is going to invest in an oil drilling program, take the big risks involved, if he is in the 50% bracket. A man in the top 50% bracket is better off (safer) just paying the tax and the hell with oil speculations.

The Carter bill is going to cut mortgage interest off on all payments above $10 to $12 thousand. This is going to hit all those who have mortgages of say $120 thousand or more (in other words, the owners of the expensive homes).

Carter wants to eliminate capital gains entirely. All possible long-term capital gains will then just be income, taxed at a peak rate of 50%. If this comes to pass, then it will militate very much in favor of bonds and fixed interest vehicles, and against stocks. After all, who the devil is going to invest in stocks (particularly low-yielding growth-type stocks) when there is no tax incentive to hold those stocks? Without capital gains tax treatment, the emphasis will be on income. And as usual, the trend will be against capital-formation, against building assets,–and very much against purchasing stocks!

Carter would also like to subject Municipal bonds to the minimum percentage tax which would be about 15%. This would trim some of the advantages of tax free Muni interest.

So now we understand why Carter came up with that $6,000 on his 1976 income tax. "See," he was saying, "even though I had no tax liability in 1976, I paid the minimum, I paid some tax despite my legal exemptions. And that, dear Americans, is what you'll all be doing if you have it my way." Of course, the implications of what Carter did are both ominous and absurd. There's nothing American or patriotic about paying more taxes than one owes. Taxes have always been, at best, a necessary evil, and to most Americans taxes are anathema. To pay more taxes than one owes is "an example" that probably frightens or mystifies most Americans. I consider Carter's act an exercise in absurdity.

In my opinion, there are only three "legal bargains" offered to the wealthy American today, three and only three. The first is the 50% tax ceiling on salary, the second is corporate profit sharing and pension plans, and the third is tax-free interest on Municipal bonds. The new Carter tax changes will lessen the advantage of the 50% tax ceiling on income, because it will hit the man in the high tax bracket with many other new taxes. The Municipal bond income may be subject to Government taxes for the first time. Only Corporate profit sharing and pension plans will be left alone. So I find myself wondering how long the Government can keep its hands off the pension plans. My secret feeling here is that Uncle Sam may not mess with the pension funds for the simple reason that if Social Security goes sour, the pension funds will be the net that will catch the falling bodies and the exploding flak. I think the Government knows this, and it militates towards a Government policy of sponsorship for the pension funds. Now that's a happy conclusion, isn't it?

GOLD, FEAR: I alternate; at times I believe love rules the world. At other times I'm convinced that fear rules the world. And at still other moments, I feel it's a draw, with neither love nor fear winning the contest.

The extent to which fear rules men's minds (and therefore their actions) is almost unbelievable. Imagine a whole nation being ruled by a madman, a man who can (and does) order other men, singularly, in groups and even in hundreds, killed. Imagine, if you can, physically mature soldiers and officers accepting the hideous death orders. Imagine the fear-ridden, twisted, tortured psyches which are capable of putting their fellow men to the torture rack, to the death chambers, to the firing squad.

We saw that kind of action in Nazi Germany, we saw it in Russia. We are seeing it and hearing about it across the face of the globe today, as military dictatorships in S. America, Asia and Africa seek to keep their pathetic subjects under tight control. On center-stage today is the African monster, Idi Amin Dada. Here we see a mass murderer, actually cheered by his fellow Africans as he attends the OAS (African) Congress. But the US is hardly immune from fear and horror. The Vietnam atrocities will some day be documented (when we have the stomach to hear them). Then there is the list of assorted tortures, assassinations, and sundry abominations committed by our own intelligence agencies.

What makes men mock God's laws while condemning their own souls to Karmic hell? In my opinion, it's the act of putting one's own welfare and survival above all else. The essence of evil is the act of thrusting one's own pain on to another, of insisting that others suffer rather than facing one's own pain.

I've been getting many letters regarding S.Africa. Obviously, from the strict economic and political standpoint, S.Africa is very important to the US. It is the great outpost of anti-Communism in Africa. S.Africa is also the West's single major source of newly mined gold (and many other critical elements).

Make no mistake about it, Jimmy Carter is most definitely committed to majority (or black) rule in S.Africa. You may think Carter's crazy, immature, a saint or a devil. But when it comes to S.Africa I think he means exactly what he says, and I don't think he's easily dissuaded. Carter wants majority rule in S.Africa–and fast. I feel that the US pressure on S.Africa is going to intensify.

S.Africa is facing major problems. Last year 15 thousand whites, professionals and skilled workers–emigrated. More than 200 S.African physicians are planning to leave S.Africa and come to the US. Perhaps most telling of all, the black market in Cape Town or Johannesburg is giving tourists rand-for-dollar deals (although the S.African rand is worth $1.16. S.Africa is slapping on controls. If you are single, you can't leave the country with over $11,700. A family can't leave S.Africa with more than $35,000.

In my opinion, and I've said this ever since early-1975, the S. African gold shares are not an investment medium. If you like gold, buy Krugerrands and lock them in your vault. But stay out of the S.African gold shares. S.Africa is going to face many hard trials in the period ahead. As I see it, fear is the ruler in this land. Fear rules the blacks and fear rules the whites. Given the trend of events, I see only one true answer for S.Africa. That answer is a real and continuing dialogue between blacks and whites, as both races face their fears about each other. Unfortunately, I don't see that happening any time soon.

OBSERVATIONS: The most accurate measurement of how a country is doing in its foreign business is the so-called current account, which includes the trade surplus or deficit. At the end of 1975, the US showed a current account surplus of $11 billion. By the end of 1977 (according to Treasury Secretary Blumenthal) the US will have a current account deficit of $10 to $12 billion. This represents a ***turnaround*** of probably $23 billion. That kind of a turnaround would be disastrous to almost any nation but the US.

Ordinarily, interest rates would explode on this kind of news. They would rocket because the Government would have to protect its currency. And indeed, the dollar has been tumbling against other major currencies. But three factors have been helping the dollar and therefore keeping interest rates flat. The first is that many secondary currencies are also very weak, a phenomenon which makes the dollar look good in certain areas. The second factor is that big money is seeking a haven in the US, and that means foreign sources want dollar investments. Third, business in the US is not booming, and thus there is no real pressure to raise interest rates in order to stem the demand for money.

The usual expectation would be for gold to surge on the kind of dollar weakness we are now seeing. The fact that gold is so sluggish suggests that the gold demand is just not there. As I stated in my last Letter, large investment interests are finding other areas in the "alternate-money" sector which they prefer to gold. Such areas include US land, US businesses, collectibles. And as I said before, all this money coming in is helping the dollar, despite the whopping US deficits.

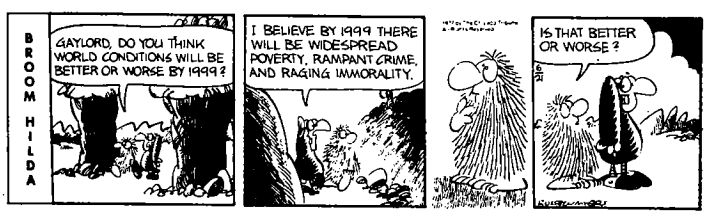
LATE NOTES: On Friday (July 1) odd lot shorts dropped to an incredibly low 360 shares sold short. On Tuesday (July 5) odd lot shorts were still extraordinarily low at 860 shares sold short. Anytime odd lot shorts sink below 1000 shares for the day, it is highly unusual and indicative of a *disbelief* on the part of the public speculator in the market's going lower. Such sentiment is usually wrong.

It's been about ten months since this market has "gone oversold." My experience with bull markets that have lost their upward momentum (as this one has) is that new purchases are best put off until the next important oversold area (a so-called "buy spot") materializes. To put it another way, it is advantageous to confine one's buying during a bull market to those areas in which the market is down and oversold. Buying in those areas generally works out well, whereas random buying when a stock "looks good" or when the market "feels right" has a way of producing losses.

Bull markets have a habit of producing at least one good oversold buy-spot each year, and the longer the time elapses without a new buy spot, the better the odds that one will shortly appear. So I'll repeat, at this juncture it will pay to wait rather than try to force the market to do what we want it to do. The chances are that a potentially profitable buying area will appear before 1977 is out. But we are not there yet.

It is indeed possible that the Dow stocks (and the high-grade stocks) have already gone a long way towards discounting any trouble that may lay ahead. It is also possible that the breadth of the market is now tired and ready to turn down. If so, many of the second-tier stocks could sell off while the Dow and glamour-type stocks tend to hold. That would produce another choice bit of Wall Street irony (but after a few years in this business you get used to that).

GOOD & BAD: A lot of people think the world's in worse shape than ever before. Maybe so, but I'd say that it's just worse on the financial front. Actually, I see people moving forward today in a way that just did not happen 20 or 30 years ago. The two little guys below are obviously pessimists. But they at least are pessimists with a sense of humor (that's the best kind). Heads up!


BROOM HILDA
GAYLORD, DO YOU THINK WORLD CONDITIONS WILL BE BETTER OR WORSE BY 1999?
I BELIEVE BY 1999 THERE WILL BE WIDESPREAD POVERTY, RAMPANT CRIME, AND RAGING IMMORALITY.
IS THAT BETTER OR WORSE?

NEXT MAILING: July 20th